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In the Supreme Court of the United States

OCTOBER TERM, 1946

No. 464

THE UNITED STATES OF AMERICA, APPELLANT

v.

LINE MATERIAL COMPANY, ET AL.

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE EASTERN DISTRICT OF WISCONSIN

BRIEF FOR THE UNITED STATES

OPINION BELOW

The opinion of the district court (R. 485–499) is reported in 64 F. Supp. 970.

JURISDICTION

The decree of the district court was entered on May 14, 1946 (R. 516). A timely motion, filed by the plaintiff, to amend materially the court's findings of fact, conclusions of law and judgment was denied by the district court on May 29, 1946 (R. 537–538). Petition for appeal was filed on July 25, 1946, and was allowed the same day (R. 538–543). The jurisdiction of

this Court is conferred by Section 2 of the Expediting Act of February 11, 1903, as amended (32 Stat. 823, 36 Stat. 1167, 15 U. S. C. 29), and Section 238 of the Judicial Code, as amended (36 Stat. 1157, 38 Stat. 804, 43 Stat. 938, 28 U. S. C. 345). Probable jurisdiction was noted on October 21, 1946 (R. 560).

QUESTIONS PRESENTED

1. Whether *United States* v. *General Electric Co.*, 272 U. S. 476, should be overruled.

2. Whether appellees' price-fixing combination is illegal under the Sherman Act and not governed by the authority of the *General Electric* case—

(a) because the combination was the product of joint, reciprocal, and concerted action among the prospective licensees, prompted and participated in by the patentees;

(b) because the common price-fixing agreements which were entered into offered to the licensees the inducement of industry-wide freedom from price competition and the patentees secured by means of this inducement a reward attributable, not to the monopoly of their patents, but to collateral restrictive agreements not given sanction by patent law; or

(c) because combining the monopoly of one patent with the monopoly of another for the purpose and with the effect of fixing prices is not within the monopoly privileges conferred by patent law, at least when, as in the present case, the

patents so combined are separately owned and are patents on different products.

STATUTE INVOLVED

The Act of July 2, 1890, 26 Stat. 209, known as the Sherman Act, provides in part as follows:

> SECTION 1 [as amended by the Act of August 17, 1937, 50 Stat. 693]. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: * * *. (15 U. S. C. sec. 1.)
>
> * * * * * *
>
> SEC. 4 [as amended by the Act of March 3, 1911, Sec. 291, 36 Stat. 1167]. The several district courts of the United States are hereby invested with jurisdiction to prevent and restrain violations of this act; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney-General, to institute proceedings in equity to prevent and restrain such violations. * * * (15 U. S. C. sec. 4.)

STATEMENT

The bill of complaint filed by the United States charges the appellees with conspiring to fix, maintain and control the prices at which each would sell dropout fuse cutouts and parts in interstate

commerce, in violation of Section 1 of the Sherman Act.

The evidence introduced by the Government at the trial consisted almost entirely of about 500 documents, such as contracts, correspondence and inter-office memoranda, obtained from the files of appellees. The defense evidence consisted of some 200 similar documents and testimony of certain of appellees' officers and employees directed mainly toward explanation or clarification of the documentary evidence.

Following conclusion of the trial and the submission of briefs,[1] the district court rendered an opinion holding that, while all the appellees were parties to interrelated price-fixing agreements, the price fixing was pursuant to patent licenses and came within rights conferred by the patent law under the principles applied by this Court in *United States* v. *General Electric Co.*, 272 U. S. 476 (R. 493–494). The court also concluded that the evidence did not establish that the appellees had entered into the license agreements merely as a screen to effectuate a conspiracy to fix prices on all sales of dropout fuse cutouts (R. 496). Subsequently the court filed its findings of facts and conclusions of law and entered judgment dismissing the complaint (R. 500–516).

[1] The case was submitted on briefs after the court had advised the parties that he did not desire to hear oral argument.

THE INDUSTRY AND APPELLEES' POSITION THEREIN

Cutouts are protective devices used to break the circuit of an electric distribution line when the current becomes excessive because of a short circuit or other overload. They are in function identical to the common house fuse but are more complicated owing to the higher operating voltages of the circuits which they protect. In essence, a fuse cutout comprises two insulated terminals connected by a meltable and replaceable wire or "fuse link" enclosed in an insulating tube.

A dropout fuse cutout is a type of cutout in which the fuse link is housed in an expulsion tube which is disengaged from the circuit upon destruction of the link and drops out of position. It has advantages over the nondropout fuse cutout, which remains in place upon destruction of the link, in requiring less insulation for the tube and in that the lineman can observe from the position of the cutout which one has operated. Both dropout and nondropout fuse cutouts are used, each of which may be open or may be enclosed in an insulated housing such as a porcelain box. (Exs. 1 (R. 561), L-23 (R. 1838); R. 97-98.)

The twelve appellees are all engaged in the manufacture and sale of various electric devices, including dropout fuse cutouts (R. 502). They manufacture and sell substantially all such cutouts made and sold in the United States (Ex. 1,

R. 561, 562) and they were all making and selling such cutouts prior to issuance of the cutout patents under which they entered into the price-fixing license agreements involved in this proceeding (R. 503, 506, 512; Ex. 7, R. 601-603). Their combined annual sales of cutouts covered by these license agreements averaged $1,918,000 for the years 1940 to 1944, inclusive (R. 502).[2] These sales were divided among the appellees as follows (*ibid.*):

Appellee	Abbreviated title[1]	Percent
General Electric Co.	General Electric	35.9
Line Material Co.	Line	26.4
James R. Kearney Corp.	Kearney	15.9
Southern States Equipment Corporation	Southern	7.9
Westinghouse Electric Corp., also	Westinghouse	5.9
Schweitzer & Conrad, Inc.	Schweitzer & Conrad	5.5
Railway & Industrial Engineering Co.	Railway	3.9
W. H. Matthews Corp.	Matthews	2.9
Portable Products Co.	Portable	1.6
Royal Electric Mfg. Co.	Royal	.8
Paulin Electric Mfg. Co.	Paulin	.2
T. F. Johnston	Johnston	.1
		99.8

[1] Under this heading we are giving the abbreviated names which we shall use in referring to the various appellees.

PATENTS INVOLVED

The price-fixing agreement of appellees is built around the framework of three patents, one owned by Southern and two by Line. These patents are:

[2] With the exception of one appellee, Schweitzer & Conrad, substantially all dropout fuse cutouts sold by appellees were covered by the license agreements. Nine of the appellees sold no other dropout fuse cutouts and two of them had only negligible sales of such other cutouts. (Ex. 7, R. 601, 602-603.)

(1) The *Lemmon patent*, application for which was filed by Southern's president on May 31, 1932, and which issued to Southern on March 7, 1939, as U. S. Patent No. 2,150,102 (Ex. 2, R. 563, 565). The Lemmon patent discloses a dropout cutout in which, essentially, an expulsion tube containing a cable conductor is latched into closed circuit position and supported by a double jointed hinge at its lower end (R. 502). When the current becomes excessive, the latch is released by a solenoid mechanism and the hinge then permits the tube to drop out and down (*ibid.*).

(2) The *Schultz patent*, application for which was filed by two Line engineers on July 13, 1932, and which issued to Line on October 17, 1939, as U. S. Patent No. 2,176,227 (Ex. 3, R. 571, 575) and was subsequently reissued as Re. 22,412 (Ex. 4, R. 582). The device disclosed is a dropout fuse cutout in which the expulsion tube contains a meltable fuse link but is also supported by a double hinge at its lower end. The hinge is held rigid by the fuse link and is automatically released when the fuse link melts, permitting the tube to drop out and down.

The applications which eventuated in the Lemmon and Schultz patents were declared in interference in 1934 and, after a contest, final Patent Office action was reached in November 1937. By reason of claims allowed to Lemmon covering cutouts with the double jointed hinge construction,

the Lemmon patent dominates the manufacture of dropout fuse cutouts. The device actually disclosed is not, however, commercially practicable because of the expense of manufacture. The Schultz device, as an improvement on that disclosed by Lemmon, is dominated by the latter. The Schultz cutout is much simpler, can be manufactured at about one-fourth the cost of a comparable solenoid operated cutout, and has met widespread commercial success (R. 503–504).

(3) The *Kyle patent*, application for which was filed by Line's president on July 16, 1929, and which issued to Line on November 18, 1930, as U. S. Patent No. 1,781,876. It was first reissued March 31, 1931, as Re. 18,020, and again on February 5, 1935, as Re. 19,449 (Ex. 5, R. 593). Four of its claims cover any fuse cutout, whether dropout or non-dropout, in combination with a box made of cast wet process porcelain (R. 503). In substance, it is a device for housing any type of fuse cutout and bears no necessary relation to any particular type of cutout.

THE PRICE-FIXING LICENSE AGREEMENTS

The Government believes that the facts material to the legal issues in the case should be set forth more comprehensively and in greater detail than in the district court's findings of fact. In presenting to the Court the facts which we deem to be significant we shall rely almost exclusively

upon documentary evidence the authenticity of which appellees have not challenged.

Late in December 1937 Line wrote Southern suggesting that they settle their interference proceedings in the Patent Office and combine their patents and applications so that "a very substantial position might be presented to the industry as a whole" through the "nucleus of a cross-license agreement" (Ex. 8, R. 613). After Southern has agreed that "some plan of cooperation will be advantageous to all concerned" (Ex. 9, R. 615), a memorandum of agreement was signed in January 1938 (Ex. 10, R. 616). Shortly after this Line, in suggesting to Southern that certain additional Southern patents be included in the parties' later definitive agreement, stated that Southern "will find it much easier to deal with licensees if all possible patents are included in the arrangement" and that Line had in mind "ultimately arriving at a set-up which will make it easier * * * to bring about stabilization in the dropout fuse and repeater fuse field" (Ex. 11, R. 618, 622).

When Line and Southern, which have always had the policy of requiring price control in all licenses granted by them under any important patent (R. 137–138, 304–305), agreed to pool their patents for the purpose of bringing the other members of the industry under license, they could hardly have been oblivious of the fact that their

agreement would bring about price fixing throughout the industry. As will be seen, such price fixing was later achieved.

The Line-Southern memorandum agreement was replaced on May 23, 1938, by a formal agreement. This agreement provided for royalty-free cross-licensing under certain patents and patent applications, including the Lennon and Schultz applications. In addition, Southern was authorized to grant sublicenses under various Line patents and applications, including the Schultz application but not the Kyle patent. Line, when selling equipment covered by a Southern patent, was required to maintain Southern's price, and Southern and Southern's licensees, when selling equipment covered only by Line patents, were required to maintain Line's prices. It was further provided that Southern should notify Line of all negotiations with prospective licensees and that Line should, on request, advise and assist Southern in the negotiation and enforcement of licenses. With immaterial exceptions, royalties received and expenses incurred in administering the agreement were to be shared equally. (Ex. 12, R. 623.)

Following this agreement Southern promptly addressed a joint letter to the six other principal manufacturers of dropout fuse cutouts notifying them that Southern was authorized to grant licenses under enumerated Line applications and

patents (Ex. 14, R. 636; *supra*, p. 5). After Kearney, the third largest producer, had signed a license in October 1938 (Ex. 16, R. 642), Southern advised the five other companies of this action and stated that both Line and Kearney were now bound to maintain Southern's prices and that the form of agreement enclosed in the letter was the "standard" which was being offered to legitimate manufacturers.[3] Upon issuance of the Lemmon patent in March 1939, Southern again invited the principal manufacturers to enter into "a broad license agreement which undoubtedly will be of benefit to all concerned" (Exs. 27 (R. 675), 29 (R. 677), 31 (R. 679)).

Kearney, upon finding itself the sole licensee of Southern, was very much dissatisfied.[4] A memorandum from its vice president to its president declared that Kearney had executed the license agreement and had withdrawn from an interference proceeding in order to allow the patent holders "to stabilize or even increase" sales prices and in order "not to delay issuing of the patents which will possibly be of primary importance in

[3] Exs. 17 (R. 652), 19 (R. 660), 20 (R. 661); (R. 119). The enclosed form of agreement, like that signed by Kearney, contained strict price maintenance provisions (Ex. 14 (R. 638, 647–648), 18 (R. 653, 656–657)).

[4] It had conferred with the other prospective licensees and learned that they would not take licenses in advance of issuance of patents on the pending Lemmon and Schulte applications (Ex. 22, R. 663).

stabilizing prices" (Ex. 22, R. 663). He further stated that Kearney was presently obligated to pay royalties "and in consideration of that royalty we have received no stabilization of prices and have no immediate assurance that the Southern States Company are in a position to carry out their part of the agreement relative to price control" (*ibid* at R. 664). In November 1938 Kearney's attorney wrote to Southern (Ex. 25, R. 670):

> It was well understood by all persons directly concerned with the signing of the contract that the Kearney Corporation was persuaded to enter into the contract solely by your assurance that the other companies selling drop-out fuses would be immediately signed to like contracts and that you would immediately establish a price schedule which would be adhered to by yourselves and all of your licensees.

In March 1939 Kearney advised Southern that no royalties would be paid until all major companies were licensed and prices fixed since Kearney had been "induced" to make the license agreement by such assurances (Ex. 38, R. 689).

The companies invited to take licenses (other than Kearney) had decided, after discussing the matter among themselves, not to accept licenses prior to issuance of the Lemmon patent and opportunity to determine whether the patent was "good, bad or indifferent" (Ex. 32, R. 680). After this patent had issued appellee Matthews

proposed to the other companies that no licenses be signed until the validity of the patent could be studied further and all agreed to this course (Exs. 32-34 (R. 680-686), 40 (R. 692)). Matthews also sent to other prospective licensees a copy of a proposed letter to Southern drafted by Matthews' counsel,[4] which stated as one of the objections to Southern's "standard" form of license that: "While you would doubtless be interested in preventing price-cutting, your agreement form obligates us to maintain prices even though your efforts to prevent price-cutting are ineffective" (Ex. 42, R. 694, 697).

At a meeting of the five companies in New York on June 1, 1939, the prospects for invalidating the Lemmon patent appeared to be not very promising (Ex. 50, R. 705), and it was decided "to go ahead and try to get a satisfactory agreement * * * and, possibly, get some price control into it" (Ex. 49, R. 703). It was agreed that General Electric should present to Line and Southern a proposal, acceptable to all the five companies, to the following effect: That the maximum royalty be 2% on distribution cutouts and 1% on high voltage cutouts and that the latter should be free from price control; that distribution cutouts "are all to be sold under definite established prices" fixed by Line rather than by

[4] Exs. 41 (R. 693), 43 (R. 696), 45 (R. 698), W-62 (R. 2324).

Southern since Line "covered the field much more completely and would be able to keep a much better control over the general price situation than Southern States"; and that the license should be only under the Leamon and Schultz patents, with all licensees having the right to add to the license at any time other of the pooled patents (Exs. 49, 50, R. 703–706).[5]

General Electric, after meeting with the Line and Southern, reported to the other companies that Line might readily be substituted as the licensor, that royalty rates would require further negotiations, and that Line had injected a new element by arguing strongly for including the Kyle patent among those licensed, with consequent extension of the area covered by royalty payments and price control (Ex. 51, R. 707). It was deemed necessary to hold a further meeting, to which Kearney, because of the proposed addition of the Kyle patent, was also invited (Exs. 52, 53, R. 709–711).[6]

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[5] The decision to substitute Line for Southern as the price-fixing agency was partially dictated by doubts as to the legality of Southern's fixing the prices of products which it did not manufacture. Three of the larger appellees had previously expressed such doubts (Exs. 22 (R. 662, 664), 23 (R. 667, 668); S & C-3 (R. 2060, 2061), and the point was again raised at the meeting (R. 335). The discussion had then veered to "whether price control could really be made effective in an industry of this kind" (*ibid.*).

[6] Each of the six companies was represented "not only by at least one official but by patent counsel" (Ex. 53, R. 711).

The six companies conferred together on the morning of August 10, 1939, and met in the afternoon with the presidents of Line and Southern.[1] The only contemporaneous report of the meeting which is in evidence states: "In the beginning no one was interested in taking a license under the wet process patent but Kyle [president of Line] advanced the argument that price control would be impossible under the licensed patents unless this patent was included." The reason given was that if any company should market a non-dropout cutout housed in a porcelain box this "could completely upset the price arrangement established by the licensor under the licensed dropout patents," but that if the licenses included the Kyle patent such a manufacturer would go into the non-dropout field knowing that it was faced with an immediate infringement suit. Line also offered a lower royalty rate if the licenses included the Kyle patent than if it did not, and stated that Porcelain and Johnson had agreed to take licenses under a patent pool including the Kyle patent "if the other companies in the cut-out group do likewise." Westinghouse, Matthews, and Railway indicated a willingness to include the Kyle patent. Kearney reserved decision.

[1] That concerted action was contemplated is apparent from General Electric's statement in calling the meeting that it "expect[ed] to have something concrete to suggest which will * * * avoid the necessity of more meetings on this subject" (Ex. 82, R. 709).

Schweitzer & Conrad and General Electric both expressed reluctance to include it but were willing to do so if others did, though in General Electric's case only if no price control were exerted against it under the Kyle patent. (Ex. 58, R. 721–723.)

There is documentary evidence, apart from the contemporaneous report of the meeting of August 10, that the parties were seriously concerned with the question whether the products subject to price control pursuant to the proposed licensing were sufficiently inclusive to permit effective price control. Schweitzer & Conrad's patent attorney wrote Line on August 7, 1939, that he understood that the Line-Southern patents did not cover the entire dropout field and that certain "non-controlled apparatus" would therefore compete with "price controlled apparatus," and commented, "That will not work." The letter continued:

> The only situation where price control will work out is where there is a definite article or device covered by a patent, and there is no near substitute for that article or device. Then, and only then, is price fixing worth the attempt. * * * My mind is open on the question * * *. If it is good for the industry and good for S & C, I would not say a word against it. (Ex. L–7, R. 1813–1814).

Line's reply states that "if proper licensing arrangements are made, it seems quite feasible to secure effective price regulation." The letter observes that even if "price regulation" under the Line-Southern patents may be affected by the sale of "unprotected" products, it will "at least stabilize prices" of products sold under these patents. Line further said that if the proposal to include the Kyle patent in the license is accepted, "the most serious obstacle to effective price regulation of dropout fuses is removed." (Ex. 68, R. 737–739.)

Following the meeting of August 10, General Electric again met with the Southern-Line group as the representative of the prospective licensees in an effort to work out details of the proposed license agreements. It subsequently reported to the group that a draft of agreement substantially similar to that discussed at the New York meeting but modified as a result of that discussion, had been prepared and submitted to Line and Southern (Ex. 59, R. 724). At the same time General Electric reported its interest in learning Porcelain's attitude and suggested that any Southern representative in visiting Porcelain be accompanied by an official of a company "more directly interested in the wet process [Kyle] patent" who would be able to "put the matter before Porcelain Products in a better way * * *." Officials of Matthews, Kearney or

Westinghouse were suggested. General Electric reaffirmed that it was "willing to go along" and called for a renewed expression of opinions by all, pointing out that there was no need for anyone to visit Porcelain if any of the group had changed its mind since the August 10 meeting. Kearney, which had avoided commitment, was requested to express "an official company opinion." Kearney responded, sending copies to the other four, that it was "willing to go along with the other prospective licensees on an agreement which would be mutually satisfactory to all parties involved" and to Kearney also (Ex. 60, R. 726).

The draft of agreement which General Electric submitted was further revised by Line, which then forwarded copies to the other prospective licensees with the statement that its terms were substantially those suggested by General Electric (R. 202–203; Exs. 62–64 (R. 729), 66 (R. 730)). At a meeting in Chicago of all parties concerned (including Line) on October 24, 1939, it was decided that licensees would be offered a choice of either (1) a single license covering both the dropout patents and the Kyle patent or (2) a license under the dropout patents *and* a separate license under the Kyle patent (Exs. 71, 72, R. 744–746).[1] This meant that no license permitting

[1] The difference between the inclusive agreement and the two separate agreements consisted in the varying royalty rates specified (See Ex. 97, R. 854; Ex. GE–71, R. 2023). The two separate agreements were drafted as an alternative

manufacture of housed dropout fuse cutouts could be obtained without taking a license under the Kyle patent as well as under the dropout patents. Line explicitly stated that a license under the dropout patents alone would be granted only for the manufacture and sale of open cutouts (Exs. 74 (R. 750), 77 (R. 762))."

All of the foregoing licenses, i. e., one covering the dropout patents and Kyle and the two licenses (to be taken only in combination) covering (a) dropout patents and (b) the Kyle patent, were to provide for fixing the licensee's minimum sales prices, except that General Electric was to be per-

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to the inclusive agreement to cover Matthew's situation (Ex. 76, R. 758) and were actually signed only by it.

That this was the choice offered the prospective licensees is shown by Line's letters to them following the Chicago meeting (Exs. 74 (R. 750), 75 (R. 754), 76 (R. 758), 77 (R. 762), 79 (R. 765)). See also Line's letter to Porcelain stating that separate licenses under the cutout patents and under the Kyle patent are "contingent upon the execution of both agreements. Neither is available to anyone separately." (Ex. 100, R. 860.) Line gave the same explicit advice to Pacific in August 1940 and to Porcelain in October 1940 (Exs. 180 (R. 1051), 205 (R. 1115)).

"In 1943 and 1944, Johnson and Royal, manufacturers which together did less than 1% of the total business in dropout fuse cutouts, were granted licenses under the dropout patents only which were not limited to the manufacture of open cutouts (*supra*, p. 6; Exs. 399 (R. 1565); 282 (R. 1280); 306 (R. 1393)). Neither Johnson nor Royal had ever manufactured any enclosed dropout fuse cutouts (Ex. 7, R. 601, 602). The license terms Line was willing in later years to offer these small manufacturers is not indicative of its position toward its major competitors.

mitted to take a license under the Kyle patent without price regulation, but, as Lane explained in a letter to other prospective licensees, the General Electric license under Kyle was to be subject to cancellation by the licensor so that "the effect will be much the same as that provided in [the] agreements * * * for price regulation" (Exs. 74 (R. 751), 77 (R. 763), 78 (R. 766)).

After further correspondence and revisions (Exs. 87, 88 (R. 809–810), 92, 93 (R. 814–818)), General Electric executed two agreements on April 9, 1940 (Exs. 94 (R. 819), 95 (R. 845)). One of these licensed General Electric to make, use and sell dropout fuse cutouts under the Lemmon and Schultz[11] patents, with the express limitation that the licensee's prices, terms and conditions of sale on dropout fuse cutouts should be no more favorable than those established from time to time by the licensor (Ex. 94, R. 822). The other licensed General Electric under the Kyle patent without provision for price control but authorized the licensor to cancel the license at any time upon 90 days' written notice (Ex. 95, R. 849)."[12]

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[11] The patent on the Schultz application had issued on October 17, 1939.

[12] General Electric, twice the representative of the respective licensees to negotiate details of the license agreements, recognized that its action would serve as an inducement to others (Ex. 71, R. 744, 745). Matthews assigned General Electric's acceptance as a particular reason for its own (Ex. 170, R. 1063). General electric displayed a continuous inter-

Prior to the execution of the General Electric licenses Line and Southern had on January 12, 1940, entered into a cross-licensing agreement superseding their agreement of May 23, 1938 (*supra*, p. 10), and embodying substantially the terms of the earlier agreement except that Line rather than Southern was authorized to license third persons under the patents designated in the agreement (Ex. 66, R. 736).

Early in April Line sent to Porcelain and to the five companies which had been periodically conferring with each other and with General Electric ever since June 1, 1939, copies of the agreements which had been worked out with General Electric (Exs. 97–101, R. 854–863; Ex. 114, R. 875). Later in April Line advised these six companies that General Electric had executed licenses and urged prompt action by the others (Exs. 109–114, R. 870–875).

The prospective licensees kept each other advised of their plans. Railway asked Matthews what it planned to do and said that Railway intended to accept the license agreement "providing the others in the group do go along with the acceptance of the agreement" (Ex. 108, R. 869). Matthews replied that it had talked to Kearney

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est in the progress of negotiations with other prospective licensees and was kept informed (Exs. 107, R. 868; 155, R. 1010; 156, R. 1011; 100, R. 1018). Line wrote General Electric with respect to negotiations that "any help from your standpoint will be appreciated" (Ex. 118, R. 880).

and had received an inquiry from Porcelain asking what Matthews intended to do (Ex. 117, R. 878). Matthews sent a copy of its reply to Schweitzer & Conrad and asked what the latter intended to do (Ex. 116, R. 877). Railway wrote to Matthews that it was probably well for all prospective licensees to get together and that "we would like to see a revision in a good many of the prices upward" (Ex. 119, R. 881). Railway made the same suggestion to Line that prices should be "revised upward" (Ex. 120, R. 883). Westinghouse informed Schweitzer & Conrad that Railway had raised the question of holding another meeting (Ex. 115, R. 876).

Matthews, after sending to Line detailed comments on the forms of agreement which had been presented to the cutout manufacturers (Exs. 124-125, R. 891-895), held a conference with Line and Southern on May 31, 1940, at which it was agreed that the "effective date for price control will be as soon as six Cutout manufacturers" are bound by agreements" and that licensees would be granted the right "to inspect licensors' records"[*] (Ex. 130, R. 897). On June 4, Matthews signed

[*] This meant three manufacturers in addition to Line, Southern and General Electric which were "already bound by these agreements" (Ex. 130, R. 897).

[*] Matthews had previously written Line requesting this right of inspection in order to enable licensees "to verify 'price control' observance by Line Material and Southern States on the same basis as the licensor's right of verification" (Ex. 90, R. 770, 773).

license agreements (Exs. 134, 135 (R. 903, 926)) delivered in escrow subject to the condition that by July 30, 1940, two of five named companies[9] had entered into an agreement with Line identical to the Matthews agreements "as to royalty, scope of license granted and price fixing" (Ex. 133, R. 900).[10]

Line wrote both Kearney and Railway advising them that Matthews had signed license agreements which it had deposited in escrow and offering to Kearney and Railway the changes incorporated in the Matthews agreements (Exs. 140, (R. 946), 145 (R. 993)). Line also enclosed a copy of Matthews' escrow letter (*ibid.*). Railway signed an agreement on June 15, 1940, and deposited it in escrow upon the terms of the Matthews deposit (Exs. 149, 150, R. 990, 991). Kearney did the same on July 3, 1940 (Exs. 142 (R. 949), 157 (R. 1012)).[11] On July 11, 1940, the

[9] The companies were Kearney, Porcelain, Railway, Schweitzer & Conrad and Westinghouse.

[10] Matthews kept prospective licensees continuously advised on the course of negotiations. Its comments on the forms of agreement were sent to others with the suggestion that a further conference of all parties might be advisable (Exs. 123, R. 890; 126, R. 895; R. 879); it reported the results of its conference with Line and Southern to other prospective licensees and asked for their comments (Exs. 130, R. 897; 131, R. 899; R. 879); and upon executing the agreements it notified others of its action (Exs. 137, R. 944; 138, R. 944; 176, R. 1049; R. 879).

[11] Before executing the agreement, Kearney suggested it was an appropriate time for Line to accept a license under a

narrow agent notified the parties that the conditions of the escrow had been met and that the deposited agreements were therefore effective (Exs. 164-166, R. 1022-1031).

After Line had sent Porcelain a set of license forms, stating which ones had been signed by other companies and that the agreements presented were in exactly the form signed by others (Ex. 205, R. 1115), Porcelain signed a license agreement dated November 15, 1940 (Ex. 209, R. 1120). Porcelain's only insistence had been that the agreement it executed "be just like the other boys have * * *; I don't want any more and I won't take any less." (Ex. 208, R. 1112.)

Pacific, fearful of omission from an arrangement among major competitors, wrote Matthews in August 1940, inquiring if interested parties had executed agreements since "if they have, it seems to me that if we want to get in on this agreement I had better write them for a copy of the license agreement and sign it up" (Ex. 178, R. 1049). After it had received the same informa-

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Kearney patent which had previously caused dispute between the two companies. Kearney insisted that Line's arguments for execution of the license agreements "that the financial gain to the licensors was secondary inasmuch as the real beneficiary * * * would be the industry as a whole because of price stabilization" were equally applicable in respect of the Kearney patent (Ex. 145, R. 988-990). Line responded that Railway had executed a license "in full reliance upon your representation to us" and insisted that Kearney comply with its prior assurance (Ex. 154, R. 1006).

tion and assurances as Precision (Exs. 180 (R. 1051), 214 (R. 1122)). Pacific executed a license agreement on December 3, 1940 (Ex. 212, R. 1122).

Negotiations with Schweitzer & Conrad and Westinghouse dragged because of complicating details of the boric acid fuse patents made by both, Westinghouse's situation with respect to exports to Canada, the manufacture by Schweitzer & Conrad of a single-hinge dropout, and several pending interferences between Line and Schweitzer & Conrad.[22] Westinghouse and Schweitzer & Conrad exchanged information on the progress of their negotiations and cooperated closely.[23] Substantial agreement with Westinghouse was reached by August 2, 1940 (Ex. 175, R. 1045) and it executed a license on January 29, 1941 (Exs. 224, R. 1179). A license to Schweitzer & Conrad was signed January 20, 1941 (Exs. 229, 230, R. 1134, 1172). The licenses are similar to each other and substantially identical to the licenses previously executed by others.[24]

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[22] Exs. 173 (R. 1039), 175 (R. 1045), 206 (R. 1117), 217 (R. 1125), S. & C.–11 (R. 2060), S. & C.–15 (R. 2066), W–28–W–31 (R. 2329–2340).

[23] Exs. 173 (R. 1039), 176 (R. 1047), 177 (R. 1048), 217 (R. 1125), 239 (R. 1177), S. & C.–12 (R. 2062), S. & C.–13 (R. 2063).

[24] Line sent a copy of the Schweitzer & Conrad license to each of Line's licensee's and asked to be advised whether the licensee believed that any feature of the Schweitzer & Conrad license was more favorable than its own license (Exs.

Johnson and Royal had a combined production of dropout free cathode constituting less than 1% of the total production (supra, p. 6) and until 1943 no serious steps were taken toward bringing these companies into the scheme. Line's determination to require Johnson to accept a license resulted when Schweitzer & Conrad pointed out in the course of a controversy with Line that Johnson was infringing (Ex. 274, R. 1273). Southern, when consulted by Line, was adverse to approaching Johnson since his competition was not "serious" and he was considered to be litigious and might succeed in invalidating the dropout patents and "upset the whole situation" (Ex. 275, R. 1275).

Line's view prevailed (Exs. 276–278, R. 1277–1281) and Johnson, when approached, immediately agreed to take a license and an agreement was signed in June 1943 (Ex. 282, R. 1286). Royal was also willing to take a license but, since its prices were below those of Line, it had to obtain O. P. A. approval of the price increases which a license would entail and this delayed signing of an agreement until March 1944 (Exs. 287 (R. 1303), 301 (R. 1318), 304–306 (R. 1321–1334)).

237–242, R. 1215–1216). This was in accord with the "most favored nation" clauses which the license agreements all contained. General Electric executed new licenses embodying the somewhat more favorable terms contained in certain of the later license agreements (Exs. 254 (R. 1226), 266–268 (R. 1240–1263)).

With the signing of the license by Royal, all ten of the appellee licensees, and Southern, had entered into license agreements with Line and all twelve appellees were thus parties to license agreements with uniform price-fixing provisions.

FIXING OF PRICES PURSUANT TO THE LICENSE AGREEMENT

Although all of appellees' license agreements except that granting General Electric a license under the Kyle patent required the licensee to observe the prices established by the licensor[22] the price-fixing provisions were largely ignored prior to January 18, 1941, the date on which the first price schedule embodying the joint ideas of the licensees became effective (Exs. 354–356, R. 1403–1428).[23]

The original cross-license agreement between Line and Southern of May 23, 1938, required Line to observe Southern's prices on cutouts embodying the Lemmon patent but Line never received any notice from Southern as to prices although Southern increased its prices early in 1939 (R. 144; Ex. 497, R. 1747). Kearney was

[22] See the various executed agreements and Exhibits 180 (R. 1051), 205 (R. 1115), 287 (R. 1303).

[23] Matthews believed "in fairness to all * * * royalty payments and price control should begin simultaneously by all licensees" (Ex. 80, R. 770). Southern did not agree since "the advantages of price regulation are thrown in as an extra; the royalty is based upon infringement, not upon price regulation" (Ex. 83, R. 780).

obligated by its agreement of October 3, 1938, to observe the prices fixed by Southern (Ex. 16, R. 643) but no prices were ever fixed under this agreement (R. 771). Although General Electric's license agreement under the Lemmon and Schultz patents made in April 1940 required it to observe Line's prices, it made no effort to conform to these prices until after January 18, 1941."

As soon as its license agreement became effective in July 1940, Railway wrote to Line that it considered it very necessary to have a meeting of licensors and all licensees to discuss Line's price schedule in detail (Ex. 163, R. 1021). Line agreed with this suggestion and said that it would set a date later (Ex. 171, R. 1037). On August 23, 1940, Line sent copies of its existing price schedule to the five licensees and to Westinghouse and Porcelain requesting each company to list its products "directly equivalent to those" made by Line and also its products not covered by Line's schedule but coming within the scope of the license agreement (Exs. 181–187, R. 1053–1057). Duplicate copies of each company's latest price schedules were also requested (*ibid.*).

Line, Southern, General Electric, Matthews,

" General Electric's prices were lower on its items Cat. Nos. 39984602 and 9F4B5 (Ex. 489, R. 1677, 1678) than the comparable Line items, Cat. Nos. A232004-2 and B232002-1 (Exs. 400 (R. 1766, sheets 2, 4), 94 (R. 819, 836)). General Electric increased its prices on these items on February 3, 1941 (R. 1766).

Porcelain, Railway, Kearney and Schweitzer & Conrad attended a meeting on September 4, 1940, to consider Line's price schedule (R. 11, 22, 25), but because of the incompleteness of the data and insufficient preliminary study of it the meeting lasted only a few hours (R. 293, 383). Later Line worked out a proposed revised price schedule which it sent to all the cutout manufacturers on October 31, 1940 (R. 433). Numerous comments suggesting changes in classification and prices were received.[24]

Line found many differences between manufacturers' prices on the more expensive single-shot and repeater cutouts and on December 11, 1940, it submitted to the licensees a plan for a standard pricing system on these cutouts. Line noted that it found it almost impossible to correlate the suggestions and figures of the various licensees with reference to these cutouts and that, since existing prices had been in effect for some time, it was endeavoring to correlate the prices to the present schedule. Difficulty in pricing cartridges was also encountered because of "lack of information on your [all licensees'] cartridge costs." All licensees were asked for "definite comments" on the proposed new pricing schedule.[25] (Ex. 330, R. 1367.)

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[24] Exs. 312, 313 (R. 1339–1340), 319–321 (R. 1346–1352), 323, 324 (R. 1354, 1356), 328 (R. 1365), 332 (R. 1371).

[25] Line's revised technique for pricing these items was apparently satisfactory to all since it was embodied without

On January 6, 1941, Line mailed to its licensees and to Westinghouse (then a non-licensee) a price schedule which was to become effective January 18, 1941.[26] Various licensees sent in suggestions concerning changes in the schedule[27] and Line then called a meeting of all licensees for January 23, 1941 (Exs. 218-227, R. 1126-1132). There was testimony that the question of changing the prices fixed by Line was not discussed at this meeting (R. 234-235, 385, 483.)

SPECIFICATIONS OF ERRORS TO BE URGED

The district court erred:

1. In entering a final decree dismissing the plaintiff's complaint.

2. In holding that the evidence does not establish the unlawful combination and conspiracy in restraint of interstate commerce charged in the complaint.

3. In finding that there was no combination or conspiracy among the defendants, or any of them, to fix, maintain, or control prices of dropout fuse cutouts or parts thereof.

4. In finding that none of the license agreements restrains trade of any article moving in interstate commerce and that none of them was

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change in the definitive price schedule sent out by Line in January 1941 (R. 360).

[26] Exs. 342 (R. 1382), 352 (R. 1399), 354-356 (R. 1403-1408).

[27] Exs. 340, 341 (R. 1379, 1381), 343, 344 (R. 1384, 1386), 347 (R. 1390).

entered into as a result of any conspiracy to restrain such trade.

5. In holding that, upon the facts established by the evidence, the decision in *United States* v. *General Electric Co.*, 272 U. S. 476, is controlling.

6. In finding that each of the license agreements made by appellees was entered into as a result of arm's length negotiation and in inferentially finding that these agreements containing uniform price-limitation provisions are not a product of joint, reciprocal, and concerted action among the prospective licensees, prompted and participated in by the patentees.

7. In holding that *United States* v. *Masonite Corp.*, 316 U. S. 265, does not establish the illegality of the license agreements with uniform price-fixing provisions made between Line, acting for itself and Southern, and each of the other appellees.

8. In holding that combining Line's patent on an enclosure for cutouts with Line's and Southern's patents on cutouts, for the purpose of the making of license agreements with all other members of the industry requiring them to observe the prices fixed by Line, is within rights conferred by the patent law and is an exercise of such rights upheld in the *General Electric* case.

9. In denying the Government's motion for amendment of the findings of the fact found by the Court and for additional findings of fact.

10. In concluding that the defendants and each of them are entitle to judgment dismissing the complaint.

SUMMARY OF ARGUMENT

I

We submit that the holding in the *General Electric* case represents a clear departure from the principles which this Court has consistently applied in determining the limits of the patent privilege. The test of the legality of price-fixing provisions in a patent license which was there adopted was whether they were normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. The Court, in giving this factor sole emphasis, ignored other considerations held by this Court to be of decisive importance in determining the scope of the patent grant. Among these are that the purpose of the patent laws is stimulation of invention, with reward to the patentee secondary and merely a means to this end; that since the patent laws confer a special monopoly privilege in derogation of the policy of freedom of trade declared both at common law and by the antitrust laws, the rights given by patents are to be strictly construed and held to the precise terms of the grant; that the patent grant confers *solely* a right to exclude others from making, using, and vending a patented invention.

This Court, in applying these principles, has consistently held that patent law does not empower the patentee to enlarge his monopoly by the expedient of attaching conditions to the license by which he confers upon others permission to make, use, or vend the patented invention, and that such conditions or provisions, being merely contractual obligations setting forth the consideration exacted by the patentee in return for foregoing exercise of his privilege to exclude, are governed by general law. And since it is general law rather than the patent law which controls, provisions which the general law condemns, such as those for fixing prices, are illegal. The *General Electric* case appears to stand as the sole exception to this uniform rule.

The basis for departure from the rule in the *General Electric* case was that where the patentee himself sells the patented product, a requirement that his licensee not sell at a lesser price is normally and reasonably adapted to secure to the patentee the pecuniary reward for his monopoly contemplated by patent law. We submit that the reward realized from such price fixing is not of this character. The patentee's power to exact such royalty payments as he may choose fully permits him to secure all reward which is normally and reasonably related to securing pecuniary reward for his power of exclusion. Furthermore, the patentee's power to determine what royalties

he will demand for licensing his patent gives to him the price protection which automatically results from the fact that the costs of the licensees in relation to those of the patentee are increased by the amount of royalties which they pay and he, in turn, receives. Any additional reward which the patentee may secure, if he has the power to fix the minimum prices of licensees, is a reward which flows from restrictive agreement and suppression of competition. The Court in the *General Electric* case therefore erred, we submit, in taking the view that attainment of a normal and reasonable reward for the patentee required condonation of practices—price fixing—prohibited by the general law.

Furthermore, the doctrine of the *General Electric* case, which had its roots in the discarded view that the rights conferred by patents are to be expansively interpreted, should be rejected because it tends to defeat the objectives of the patent law. The doctrine, by permitting licensees to sell the patented product free from price competition, largely removes their incentive to invent around the patent or to develop new and perhaps superior inventions. This result is directly contrary to the primary purpose of the patent law, stimulation of invention. For the same reasons, licensees have little incentive to force a court test of narrow, doubtful or spurious patents, whereas this Court has declared it to be in the

public interest and a policy of the patent laws that trade and industry be free from restrictions asserted under patents of this kind.

Finally, the *General Electric* case should be disavowed because it engenders and has engendered a host of difficult questions as to its scope and application, questions which, if the case be not disavowed, will long plague this Court, the lower federal courts, the Government, and all patentees and their licensees.

II

A. The prospective licensees, by meetings and other interchange of views which the patentees prompted and participated in, reached agreement on the license provisions acceptable to the group, including those for fixing prices. The parties also tacitly understood and agreed that all substantial members of the industry would enter into license agreements embodying the agreed terms and they carried out this understanding by all becoming parties to license agreements with uniform price-fixing provisions. Such a price-fixing combination obviously violates the Sherman Act save as the patent law may give it immunity. No such immunity is to be inferred from the holding of this Court in the *General Electric* case, which merely held that a patentee does not overstep his monopoly when he enters into a single and isolated license agreement which requires the licensee not to sell below the patentee's own sales price. But

in the present case the price-fixing agreements were the product of combination among and with non-patentees, the prospective licensees. Patent law grants no privilege to extend, by combination with others, the limited monopoly of the patent. The *General Electric* case does not hold otherwise.

B. *United States* v. *Masonite Corp.*, 316 U. S. 265, held that when a patentee enters into a series of related and uniform *del credere* agency agreements providing that the various agents maintain the patentee's price and when the patentee thereby knits together a whole industry in a scheme to regulate prices and suppress competition, this is an enlargement of the patent privilege by means of restrictive agreement. This Court further held that the scheme is an enlargement of the patent privilege because its effect is to secure to the patentee rewards flowing from industry-wide protection against price competition rather than, or in addition to, such reward as the patentee might secure from exercise of the right of exclusion conferred by patent law. The *Masonite* case therefore held that no patent privilege operated to save the defendants' price-fixing combination from the condemnation of the Sherman Act. We submit that where, as in the instant case, the parties entered into a series of interrelated price-fixing agreements conveying a license to make and sell, instead of merely a license to sell as in the *Masonite* case, the arrangement constitutes an

attempt to secure to the patentee rewards attributable to the privilege (which the license agreements purport to confer) of marketing the patented product at non-competitive prices. Under the *Masonite* case, this is beyond any monopoly right of the patentee and is a violation of the Sherman Act. The *Masonite* case, not the *General Electric* case, is controlling.

C. This Court has declared that combining the monopoly of one patent with the monopoly of another for the purpose of fixing prices or otherwise imposing unreasonable restraints of trade is not within any privilege given by patent law. *Standard Oil Co.* v. *United States*, 283 U. S. 163, 174–175; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 459. In the present case the patentees combined for this purpose patents on different products held by different owners. Appellees' price-fixing combination and conspiracy must therefore be deemed illegal. No sanction under patent law can be inferred from the *General Electric* case, where there was no like combination of patents for price-fixing purposes.

ARGUMENT

The issues which the Government is here presenting are whether *United States* v. *General Electric Co.*, 272 U. S. 476, should be overruled and whether, if that case is not to be overruled, it governs the instant case.

Ordinarily, the second question would be discussed first. The Government has reversed this order of presentation for two reasons. One reason is that most of the considerations which might lead this Court to hold that there are aspects of appellees' combination which take it out of the *General Electric* decision are even more directly applicable to the question whether the decision itself should be reconsidered and rejected. A marshalling of the arguments for overruling therefore sets the framework for determining what are the appropriate and necessary limits of the *General Electric* holding if the Court reaches this question.

Our second reason is that it appears to be clearly in the public interest that the *General Electric* case should now be either overruled or its precise limits redefined by this Court. Notwithstanding whatever doubts as to the present authority of the case may have been engendered by the later decisions of this Court, the lower federal courts are of course required to follow the case. This had led not only to varying interpretations as to the effect of the holding but also to protracted trial of the issues believed to be relevant and protracted judicial consideration of the law and facts. *United States* v. *United States Gypsum Co.*, No. 711, this Term, is illustrative. Over five months were required to introduce the Government's evidence, a motion then made to dismiss the complaint was not ruled upon until

more than two years later,[28] and the record as filed in this Court on appeal is over 9,000 pages, not including approximately 6,000 pages of exhibits. Another illustrative case is an equity proceeding under the Sherman Act brought by the United States against the General Electric Company and others in which the application of the holding in the *General Electric* case is a central issue.[29] The district court still has the case under advisement following a three months' trial ending in May 1946, the record consists of more than 28 substantial volumes of printed transcript and printed exhibits, and the briefs filed by the parties run to more than 1,400 printed pages. In addition, there are eleven other pending cases brought by the United States involving price fixing under patent license agreements.[30]

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[28] *United States* v. *United States Gypsum Co.*, 67 F. Supp. 397 (D. D. C.).

[29] *United States* v. *General Electric Co.*, D. N. J., Civil No. 1364.

[30] *United States* v. *Allegheny Ludlum Steel Corp.*, D. N. J., Civil 45–88; *United States* v. *American Optical Co.*, S. D. N. Y., Civil 10–391; *United States* v. *Bausch & Lomb Optical Co.*, S. D. N. Y., Civil 10–394; *United States* v. *Catalin Corporation of America*, D. N. J., Civil 7743; *United States* v. *General Cable Corp.*, S. D. N. Y., Civil 40–76; *United States* v. *General Electric Co.*, D. N. J., Civil 2590; *United States* v. *General Electric Co., Fried Krupp, et al.*, S. D. N. Y., Cr. 110–412; *United States* v. *General Instrument Corp.*, D. N. J., Cr. 3960–C; *United States* v. *General Instrument Corp.*, D. N. J., Civil 3586; *United States* v. *Phillips Screw Co.*, N. D. Ill., Civil 47–C–147; *United States* v. *Timken Roller Bearing Co.*, N. D. Ohio, Civil 24214.

The fact that numerous license agreements may have been entered into in reliance upon the General Electric case should not, we submit, be a ground for unwillingness or reluctance on the part of this Court to reconsider the case. As the present record shows even as to General Electric itself, such licenses have been made, at least in recent years, with full awareness of the possibility, if not probability, that the case would eventually be reversed."

I

THE SANCTION GIVEN TO PRICE FIXING IN UNITED STATES v. GENERAL ELECTRIC CO., 272 U. S. 476, MISINTERPRETS THE RIGHTS CONFERRED BY PATENT LAW AND SHOULD BE OVERRULED

The Government believes that the holding in the *General Electric* case that the patentee may determine the prices at which his licensees may sell represents a clear departure from the principles which this Court has consistently applied in determining the limits of the patent privilege. The Government believes that the holding in that

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[a] The opinion of outside patent counsel on the proposed license agreements with Line, submitted at the request of General Electric in July 1939, advised (Ex. GE–33, R. 1963, 1966):

"You realize of course, that while price control provisions in patent licenses have been sustained by the Supreme Court in *United States* v. *General Electric*, 272 U. S. 476, the composition of the Court has radically changed since then and it is conceivable that if the same questions were now presented in perhaps a less favorable case, that Court might reach a different conclusion."

case represents an extension of the patent monopoly beyond its terms and in violation of general law, contrary to other decisions of this Court; that the holding rests on an erroneous factual assumption; that it rests on an interpretation of the rights of patentees which cannot be squared with the interpretation of these rights in later decisions of this Court; that the holding tends to defeat the primary objective of the patent law and otherwise runs counter to the policy of that law; and finally that the decision breeds confusion and uncertainty as to what is or is not within the patentee's monopoly. For these and other reasons, the Government urges that the holding in the *General Electric* case giving sanction to price fixing pursuant to patent license should be reconsidered and overruled.

Before dealing with the specific holding in the *General Electric* case and the grounds of that decision, we shall first set forth certain general principles applied by this Court in interpreting the scope of the patent grant and, second, undertake to show that a provision in a patent license providing for price fixing cannot, consistently with the decisions of this Court, be said to fall within any monopoly right given by patent law and thereby escape prohibitions of the general law.

A. THE PRINCIPLES GOVERNING INTERPRETATION OF THE PATENT GRANT

The rights given by patent law must necessarily be determined in the light of the objectives of the patent grant. These have been so repeatedly declared that today they are beyond doubt. The patent law, enacted pursuant to the power given to Congress to make laws which "promote the progress of science and useful arts", has consistently been interpreted, consonant with the constitutional provision, as intended primarily to benefit the public at large by encouraging the development of new inventions. Inventors should be fairly, even liberally, treated (*Grant* v. *Raymond,* 6 Pet. 218, 241–242) but "it is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage" (*Kendall* v. *Winsor,* 21 How. 322, 327–328), for the primary purpose of the patent laws is not the creation of private fortunes, but promotion of scientific progress (*Pennock* v. *Dialogue,* 2 Pet. 1, 18). Since the monopoly rights conferred by patents constitute the grant of a special privilege in derogation of the policy of equal opportunity and freedom of trade embodied both in the common law and federal statutory law, the rights given by the patent law are to be strictly confined to those expressly granted. *United States* v. *Masonite Corp.,* 316 U. S. 265, 280. In short, "It is the public inter-

est which is dominant in the patent system" (*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 665) and every claim of patent right is to be tested from this standpoint."[22]

B. THE PATENT LAW CONFERS UPON THE PATENTEE ONLY A RIGHT OF EXCLUSION AND THE CONSIDERATION RECEIVED BY THE PATENTEE IN RETURN FOR MAKING A LICENSE AGREEMENT TO FOREGO EXERCISE OF HIS RIGHT OF EXCLUSION AS AGAINST HIS LICENSEE IS GOVERNED BY GENERAL LAW, AND IF SUCH CONSIDERATION IS FORBIDDEN BY GENERAL LAW, AS IN THE CASE OF A PRICE-FIXING AGREEMENT, PATENT LAW GIVES IT NO SANCTION

Long prior to passage of the Sherman Act, this Court stated in language which has endured that the patent grant "consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee" (*Bloomer* v. *McQuewan*, 14 How. 539, 549).[23] In line with this classic definition of the scope of the patent privilege, it was determined at an early date that the patentee, while he might refuse to sell the patented article, could not condition its sale in a manner which contravened

[22] As to significant decisions in addition to those cited in the above paragraph, see *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224; *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502, 511–512, 514–516; *United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241, 250–252; *Scott Paper Co.* v. *Marcalus Mfg. Co., Inc.*, 326 U. S. 249, 255–257.

[23] In a recent reaffirmation of this principle, the Court said: "By the very terms of the statute the grant is nothing more than a means of preventing others, except under license from the patentee, from appropriating his invention." *Special Equipment Co.* v. *Coe*, 324 U. S. 370, 378.

the public interest or violated positive law. *Adams* v. *Burke*, 17 Wall. 453; *Hobbie* v. *Jennison*, 149 U. S. 355; *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659; *Patterson* v. *Kentucky*, 97 U. S. 501. Various restrictions in licenses to use or manufacture patented articles have been upheld, but there has been no suggestion that the patent grant validates restrictions otherwise in violation of law. *Rubber Co.* v. *Goodyear*, 9 Wall. 788; *Mitchell* v. *Hawley*, 16 Wall. 544.

This Court has also held, rejecting certain of its prior decisions, that conditions incorporated in a patent license giving the patentee control over an unpatented product used in and necessary to the operation of the patented invention or constituting an essential element thereof, are not within the monopoly privilege conferred by patent law. This was held as to materials required for the use of a patented machine (*Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502, overruling *Henry* v. *A. B. Dick Co.*, 224 U. S. 1), as to materials necessary to a patented method of manufacture (*Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27), and as to a product constituting an integral element in a combination patent (*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, overruling *Leeds & Catlin Co.* v. *Victor Talking Machine Co.* (*No. 2*), 213 U. S. 325). The rationale of these holdings is set forth in the *Mercoid* case (p. 666):

> The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. * * * When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts.

And as the Court said further, if the mere act of the patentee could make the claim of the patent attach to something not possessing the quality of invention, then "the patent would be diverted from its statutory purpose and become a ready instrument for economic control in domains where the anti-trust acts or other laws not the patent statutes define the public policy" (*ibid.*).

When a patentee licenses another to sell his patented product he is merely sharing with or delegating to another the exclusive right to vend vested in him by the patent law. He is, in other words, merely agreeing to forego charging the licensee with infringing his own exclusive right; the license is a "mere waiver of the right to sue" (*DeForest Co.* v. *United States,* 273 U. S. 236, 242). The consideration which the patentee receives for the grant of such a license is not, however, a right conferred by patent law. This is a matter of agreement between the parties,

governed by the general law as fully as is a condition limiting the licensee in his use of unpatented materials in or as a part of the licensed invention. "Beyond the 'limited monopoly' granted by the patent, the methods by which a patent is exploited are 'subject to the general law.'" *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, No. 208, this Term, slip op. 7. The fact that a restrictive provision of a patent license is not prohibited by the patent law does not mean that it "has immunity under the anti-trust laws." *Id.*, 10–11.

If a patent license were made upon the condition that the licensee transfer to the patentee stolen goods, lottery tickets, counterfeit money, or anything else the transfer of which was positively prohibited, it would scarcely be contended that, because this was the pecuniary reward for the licensing of his patent chosen by the patentee, this reward was within the monopoly given by patent law and therefore immunized from the prohibitions of general law. We submit that the conclusion must be the same where the license provisions constitute an *agreement* prohibited by general law, as, for example, that the licensee sell the patented product in violation of the Pure Foods and Drugs Act or by misrepresentations constituting unfair or deceptive acts or practices in violation of the Federal Trade Commission Act. (See Criminal Code, Sec. 37, 18 U. S. C. 88).

A patent license with such provisions cannot, we submit, be distinguished from one which is conditioned upon maintenance by the licensee of the prices established by the licensor. Such a license is a price-fixing agreement and price-fixing agreements are *per se* illegal under the Sherman Act. Although the obligation to adhere to fixed prices is expressed in terms of a condition to the license, this obligation, which is intended to be and is observed as long as the license agreement remains in effect, constitutes a price-fixing agreement between the parties prohibited by the Sherman Act unless saved therefrom by virtue of some right given by patent law.[a] Moreover, where, as in the instant case, all members of an industry are invited to, and do, enter into licenses with the same price-fixing provisions and each acts with knowledge of this invitation and of the actual or contemplated acceptance of it by all others, there is a price-fixing combination to which all are parties. *United States* v. *Masonite Corp., supra,* pp. 274–276.

To sum the matter up, the patent law confers only a right to exclude. The right thus created may be transferred, within the limitations prescribed by general law, like other forms of property. The fact that the right itself is a special

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[a] This Court has specifically so held. *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, 174, 175; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, No. 28, this Term, slip op. note 1 (pp. 1–2), p. 5.

privilege conferred by law and thus necessarily immune from attack under other statutes does not mean that the consideration which the holder of the right receives when he transfers or surrenders his right to another is also made privileged. It follows that a price-fixing agreement entered into as an incident to the patentee's surrender or partial surrender of his right of exclusion is fully subject to the prohibitions of the general law, and under the Sherman Act a price-fixing agreement is illegal *per se*. But for the authority of *United States* v. *General Electric Co.*, 272 U. S. 476, the illegality of price fixing pursuant to a patent license would seem to be clear.

C. THE GROUND UPON WHICH PRICE FIXING WAS UPHELD IN THE GENERAL ELECTRIC CASE WAS THAT AN AGREEMENT GIVING A PATENTEE CONTROL OVER THE PRICES OF HIS LICENSEE IS "NORMALLY AND REASONABLY" ADAPTED TO SECURE PECUNIARY REWARD FOR THE PATENTEE'S MONOPOLY

The facts in the *General Electric* case bearing upon that part of the decision dealing with patent licensing are simple. The General Electric Company was the owner of patents which, the Court stated, "cover completely" the manufacture, use, and sale of modern electric lights or lamps with tungsten filaments. 272 U. S. 476, at pp. 481, 488. General Electric, which manufactured and sold such lamps, gave to the Westinghouse Electric and Manufacturing Company a license to manufacture and sell the patented lamps on the condition that the licensee not sell at prices or

other terms of sale more favorable to the customer than those fixed by General Electric and observed by it in its own sales. In a suit under the Sherman Act charging an illegal restraint of interstate commerce in lamps, the question before this Court was whether the price-fixing provisions of the Westinghouse license were within the monopoly rights of the patentee and, as such, protected against the prohibitions of the Sherman Act.

It was the view of this Court that although the patent law confers only a right to exclude others from making, using and vending the patented invention, this right of exclusion should be construed as embracing a right on the part of the patentee, at least if he himself sells the patented product, to fix the minimum sales prices of those to whom he grants licenses under his patent. The reasons given for this conclusion were that such a price-fixing provision is "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly", and that it was to be inferred that Congress intended to include within the patentee's monopoly the right to include a provision of this nature in any agreement giving to another a license under the patentee's patent.[*]

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[*] To what extent the decision was influenced by the prior holding of this Court in *Standard Oil Co.* v. *United States*, 221 U. S. 1, that some restraints of trade may be "reasonable"

This view that the terms written into a license agreement are within the monopoly rights conferred by patent law if the terms are designed to secure to the patentee pecuniary reward for his monopoly seems to have been disapproved in later decisions of this Court which have explicitly stated that it is the general law, not patent law, which governs the methods or arrangements used by the patentee for exploiting his monopoly.[28]

But passing the question of subsequent disapproval of the ground of decision, it is clear that the *General Electric* case did not hold that if a license provision is "adapted to secure pecuniary reward" for the patentee's monopoly this circumstance is in itself sufficient to bring the provision within that monopoly. The *General Electric* case fully accepted the authority of the *Motion Picture*

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and consequently exempt from the proscriptions of the Sherman Act is open to speculation. Subsequent to the *General Electric* case this Court has had occasion to define the limits of its opinion in the *Standard Oil* case and has definitely ruled that all restraints of trade involving price fixing, which is the violation alleged in the present case, are illegal *per se*. *United States* v. *Trenton Potteries Co.*, 273 U. S. 392; *United States* v. *Socony Vacuum Oil Co.*, 310 U. S. 150.

Furthermore, the decision in the *General Electric* case may to some extent reflect conceptions as to the scope of patent rights which were expressed in *Heaton-Peninsular Button-Fastener Co.* v. *Eureka Specialty Co.*, 77 Fed. 288 (C. C. A. 6), a decision which was disapproved in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502.

[28] *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, *supra*, slip op. 7; *United States* v. *Masonite Corp.*, *supra*, p. 277.

Patents case, *supra*, which held that a condition of a patent license requiring use of unpatented materials in a patented machine—a condition obviously adapted to secure pecuniary reward to the patentee for his monopoly—is *not* within that monopoly. The grounds upon which the *Motion Picture Patents* case was distinguished were (p. 493):

> The price at which a patented article sells is certainly a circumstance having a more direct relation, and is more germane to the rights of the patentee, than the unpatented material with which the patented article may be used.

Under the *General Electric* decision, therefore, it is only when provisions of a patent license are "normally and reasonably" adapted to secure pecuniary reward for the patentee's monopoly that they come within the monopoly conferred by patent law. And the reasons for concluding that a price-fixing provision meets this test, at least when the patented product is sold both by the patentee and by his licensee, are briefly set forth in the Court's opinion (p. 490):

> One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which

his licensee will sell will necessarily affect the price at which he can sell his own patented goods.

We submit that the rule or test adopted in the *General Electric* case for determining what is and what is not within the patentee's monopoly is, at least as applied to price fixing, erroneous for several reasons. For one thing, the Court accepted as controlling the authority of a decision (*Bement* v. *National Harrow Co.*, 186 U. S. 70) rendered in 1902 which had adopted a view as to the scope of the patent grant at complete variance with that expressed by this Court in recent years. In addition, the test which the *General Electric* case applies places sole emphasis upon reward to the patentee and ignores the respects in which application of the test produces results contrary to the primary objective of the patent law and otherwise inconsistent with its policy. Finally, the basis for the rule or test is an assumption which we believe to be erroneous, that price fixing is "normally and reasonably" adapted to secure to the patentee the pecuniary reward for his monopoly contemplated by patent law. The last consideration, although not the most important, may appropriately be considered first.

D. THE PRICE FIXING AUTHORIZED BY THE GENERAL ELECTRIC CASE IS NOT NORMALLY AND REASONABLY REQUISITE TO SECURE TO THE PATENTEE THE PECUNIARY REWARD FOR HIS MONOPOLY CONTEMPLATED BY PATENT LAW

A patentee has several courses open to him. He may, if he wishes, retain his exclusive privilege of sale and obtain the reward for his patent realizable from exploiting the market as a monopolist. He may also delegate his right of sale to one or more others in return for such consideration or royalty as the patentee may choose to fix provided the consideration is not unlawful under general laws. Likewise the patentee may sell the product himself and also license others to sell, and in such licenses the patentee may fix the rate or the amount of the royalty with reference to the automatic price protection which is afforded to the patentee when the costs of licensees are above his own to the extent of the royalties which they pay and he receives.

We do not deny that in many instances a reward greater than that realizable in any of the foregoing ways can be obtained by the patentee if he is free to fix the prices of his licensees. But this additional reward flows from the suppression of competition by combination and agreement; it is not a reward flowing from exercise of any right of exclusion given by the patent law (*United States* v. *Masonite Corp., supra,* at p. 282). If this is so, it necessarily follows that this additional increment of profit is not "normally and

reasonably" adapted to secure to the patentee the reward for his monopoly contemplated by patent law. We have already pointed out that license provisions, the effect of which is to enable the patentee to profit by restrictions on trade not found within the four corners of his exclusive right to manufacture, use, and vend, have been repeatedly held by this Court to be not within the patentee's monopoly. We believe that today the *General Electric* case stands as the single exception to the general rule.

B. THE GENERAL ELECTRIC CASE RESTS ON AN EXPANSIVE INTERPRETATION OF THE PATENT GRANT INCONSISTENT WITH PRESENT-DAY INTERPRETATION

The major portion of that part of the *General Electric* opinion relating to the Westinghouse license deals with the question whether *Bement* v. *National Harrow Co.*, 186 U. S. 70, which had upheld the validity of price-fixing provisions in a patent license, had been overruled or its authority impaired by later cases. 272 U. S. 476, 490–494. The Court held that the *Bement* case had not been overruled, quoted from it, and adopted its reasoning. It seems fair to say that the *Bement* case is the real foundation of the *General Electric* holding and it is therefore appropriate to examine into the considerations to which the Court gave weight in the earlier case.

In the *Bement* case the Court said (p. 91) that "the general rule is absolute freedom in the use

or sale of rights under the patent laws of the United States" and that "the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts."[37] Likewise the Court in the *Bement* case largely relied upon *Heaton-Peninsular Button-Fastener Co.* v. *Eureka Specialty Co.*, 77 Fed. 288 (C. C. A. 6), which had upheld the validity of license provisions tying unpatented materials to a patented machine,[38] where the court had answered the objection that such tying clauses operate to create a monopoly in an unpatented product by saying (p. 294) that "very high considerations of public policy are involved in the recognition of a wide liberty in the making of contracts."

The view thus imbedded in the *General Electric* case, that the "general rule" of the law is that it confers upon the patentee "absolute freedom" respecting the agreements by which he exploits his patent stands in sharp and striking contrast with this Court's later interpretation of the patent grant. The patent law is to be con-

[37] The latter statement is quoted with approval in the *General Electric* case (p. 491).

[38] The *Button-Fastener* case was expressly disapproved and its doctrine rejected in *Motion Picture Patents Co.* v. *Universal Film Co.*, *supra*, at p. 514.

strued and applied "so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant" (*United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241, 251). The limits of the patent monopoly are "narrowly and strictly confined to the precise terms of the grant" and in the patent system it "is the public interest which is dominant" (*Mercoid Corp.* v. *Mid-Continent Investment Co., supra*, p. 665). And "a patent license may not be used coercively to exact a condition contrary to public policy" (*Transparent-Wrap Co.* v. *Stokes & Smith Co., supra*, slip op. 8).

The *General Electric* case therefore has its roots in the view, no longer prevailing, that the scope of the patentee's monopoly is to be broadly construed. The shift in emphasis in interpretation of this monopoly represents, we submit, an accommodation of the interpretive process to changing conditions as to the manner and means of making inventions and as to the uses made of patents inimical to the public interest.

Since the decisions in the *Bement* case (1902) and in the *General Electric* case (1926), technology, and its concomitant, patents, have greatly increased in social and economic importance. The kit of tools has been replaced by a complex complement of machines. The artisan has become a factory worker, and research and the procurement of patents have become highly organized business

activities. Increasingly, patents on articles, processes and machines are concentrated in the industrial corporations which can finance organized research activities. Through the instrument of price fixing under patents, commercial products in common use are capable of effecting broad social and economic controls."

" The Commissioner of Patents advised Congress in 1936 that the day of the individual inventor is "rapidly fading" (Hearings before House Committee on Patents on H. R. 4523, 74th Cong., 1st Sess., 1068). Between 1921 and 1938 the percentage of patents issued to corporations increased from about 25% to 51.7% (Hearings, Temporary National Economic Committee: Part 8, Patents, Proposal for Changes in Law and Procedure, p. 1129, Ex. 187). "Inventions" are now very commonly the product of step-by-step experimentation in the research laboratories of large industrial corporations (*Potts* v. *Coe*, 145 F. 2d 27, 28–29 (App. D. C.)).

The Temporary National Economic Committee reached the conclusion that "in many important segments of our economy the privilege accorded by the patent monopoly has been shamefully abused. * * * It has been used as a device to control whole industries, to suppress competition, to restrict output, to enhance prices, to suppress inventions, and to discourage inventiveness." Final Report TNEC, Sen. Doc. No. 35, 77th Cong., 1st Sess., p. 36.

See also, Hamilton, *Patents and Free Enterprise*, Monograph No. 31, Temporary National Economic Committee, 4–10.

Recent decisions of this Court involving abuse, or attempted unauthorized extension, of the patentee's monopoly are *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436; *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488; *United States* v. *Masonite Corp.*, *supra*; *United States* v. *Univis Lens Co., Inc.*, *supra*; *Mercoid Corp.* v. *Mid-Continent Investment Co.*, *supra*; *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U. S. 238; *Hartford-Empire Co.* v. *United States*, 323 U. S. 386.

F. PRICE FIXING PURSUANT TO PATENT LICENSE TENDS TO DEFEAT THE OBJECTIVES AND POLICIES OF THE PATENT LAW

As we have previously stated (*supra*, p. 51), the sole test which was applied in the *General Electric* case to determine the validity of price-fixing provisions in a patent license was whether such provisions are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. It is, however, settled doctrine that the patent grant does not give the inventor any absolute right to a pecuniary reward. Both the Constitution and the patent statutes specify the reward to be only exclusive use for a limited time. And only insofar as a lawful exploitation of that right results in commercial reward is the patentee entitled to any. A patentee cannot attach an unlawful condition to a patent license because he can in no other way secure a pecuniary reward for his patent.[40] Certainly, then, the lawfulness of any condition attached to a patent license cannot be determined by the test of whether or not it is "normally and reasonably" adopted to secure pecuniary reward, and more particularly, this sole test cannot be used to justify as a part of the patent grant what would otherwise be not only contrary to the public policy underlining the pat-

[40] "The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so, because he [the patentee] cannot avail himself of its benefits within the limits of the grant." *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 498, cf. *Mercoid Co.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 666.

ent laws, but even a *per se* violation of the antitrust laws."

The primary objective of the grant of the patent monopoly is encouragement of invention, reward to the patentee being secondary and merely a means to that end (*supra*, p. 42). Presumably the Court in the *General Electric* case was of the opinion that increasing the patentee's reward by permitting him to fix his licensees' prices has the effect of stimulating invention. We submit, to the contrary, that such price fixing, instead of promoting this objective, tends to defeat it.

If price fixing is not permissible, a patent licensee must pay royalties without the compensating advantage of protection against price competition. In these circumstances the licensee is under a powerful stimulus to develop competing inventions which will release him from the burden of royalty payments. This stimulus is largely or completely lacking if he welcomes, and believes that he profits by, the opportunity to sell at noncompetitive prices.

For the same reason licenses which afford price protection are apt to be taken under patents which are narrow or of doubtful validity when

[41] It should be pointed out that in *B. B. Chemical Co. v. Ellis, supra*, and *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, the Court did not find it necessary to pass upon whether or not the conditions violated the antitrust laws, much less constituted a *per se* violation. It sufficed that the conditions were contrary to the public policy underlying the patent laws.

otherwise licenses would not be taken and the patentee would be forced to put his patent claims to the test of judicial determination. The present case furnishes a striking instance of this. The Kyle patent was originally issued in 1930 but, although Line made intensive efforts to secure licensees under the patent and although manufacturers made wide use of the device disclosed, for more than nine years Line met no success in licensing the patent (R. 303). But in 1940 after the Kyle patent had been coupled with other patents for the purpose of obtaining more effective price control, substantially all members of the industry promptly took licenses under it (*supra*, pp. 14–24)."

To the extent that price-fixing provisions in license agreements give currency to doubtful or spurious patents, their effect is contrary to the public interest and to the policy of the patent laws. "It is as important to the public that

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[42] General Electric thought the patent of very doubtful vadidity and that its reissue did not improve it (R. 318–319) and in 1939 litigation was pending between Line and General Electric in which the latter asserted the invalidity of the patent (R. 303; Exs. GE–32, GE–33 (R. 1957–1966)). Westinghouse also had doubts as to the validity of the patent (Ex. W–13, R. 2302).

Similarly in the *General Electric* case Westinghouse took a license in 1912 providing for price fixing of lamps although the basic Just and Hanaman patent, claiming only a part of an incandescent lamp, the filament, was not sustained as valid until 1916 (*General Electric Co.* v. *Laco-Philips Co.*, 233 Fed. 96 (C. C. A. 7)).

competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly." *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224, 234. This Court has said that it is the duty of courts to invalidate a patent, bad on its face, even though the invalidity is not asserted by the litigants. *Brown* v. *Piper*, 91 U. S. 37, 44. It has stressed the "protection of the public from the threat of an invalid patent" as the purpose of the rule that a patent is invalid in its entirety if any part of it be invalid. *Marconi Wireless Co.* v. *United States*, 320 U. S. 1, 58. And the rule that a licensee under a licensing agreement which provides for price fixing is free to challenge the patent's validity is "firmly grounded upon the broad public interest in freeing our competitive economy from the trade restraints which might be imposed by price-fixing agreements stemming from narrow or invalid patents". *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, Nos. 70, 71, this Term, slip op. 6.

The *General Electric* case, as applied by the court below and in *United States* v. *United States Gypsum Co.*, 67 F. Supp. 397 (D. D. C.), makes permissible industry-wide price fixing under a patent which in fact is invalid.[42] And if *United*

[42] In the *General Electric* case it was stipulated that three General Electric patents, which this Court referred to (p. 481) as "completely" covering electric lights with tungsten filament, had been "sustained and enforced by one or more

States v. United States Gypsum Co., 53 F. Supp. 889 (D. D. C.), was correctly decided, even the United States, whose officers are charged with enforcement of the Sherman Act, is without power to attack a regime of industry-wide price fixing grounded upon a wholly invalid patent.

The doctrine of the *General Electric* case stands as a constant invitation to circumvent the public policy embodied in the antitrust laws. The inherent dangers to a competitive economy become greater as the research activities of powerful industrial concerns expand. On the other hand, if the case should now be overruled, this would in no way destroy incentive to research because the patentee can still exact his reward in the form of royalties.

C. THE DOCTRINE OF THE GENERAL ELECTRIC CASE EITHER HAS A SCOPE SO NARROW AS TO BE OF ALMOST NO PRACTICAL EFFECT OR IT HAS A SWEEP AND CONSEQUENCES DESTRUCTIVE OF THE PUBLIC POLICY EMBODIED IN THE ANTITRUST LAW

The rationale of the *General Electric* case is that the patentee is entitled to protection against the competition which may arise from sales by the licensee at prices below those of the patentee. We submit that this rationale has a false and deceptive appearance of simplicity and fairness. This is forcefully illustrated by the manner in which the *General Electric* ruling has been ap-

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United States Courts" (Record, *General Electric* case, p. 89). General Electric's brief in that case cited fifteen such decisions (Brief, opposite p. 58).

plied by the General Electric Company. It is also illustrated by the patents involved in the present case.

The three basic patents involved in the *General Electric* decision expired in 1929, 1930 and 1933, respectively, but since that time the General Electric Company has continued in effect substantially the same license as that before this Court in 1926. Numerous part and detail patents were, from time to time, substituted for the three patents which in 1926 this Court stated were completely controlling, and at least two of these patents have come before this Court for consideration and have been held invalid.[44] An incandescent lamp comprises a dozen or more parts and, if a patent on any one part can justify price fixing on the whole, it is obvious that the successive patenting of improvements in the dozen or more parts would make price control well nigh perpetual. In addition, if these dozen or more parts were covered by patents owned by different patentees and each patent carried with it the right to price-fix the whole, conflict and confusion on the one hand or combination and agreement on the other would be inevitable.

[44] One of these patents related solely to a filament (the Pacz Patent #1410499, *General Electric Co.* v. *Wabash Appliance Co.*, 304 U. S. 364), and the other patent related exclusively to a bulb frosted on the inside (Pipkin Patent #1687510, *General Electric Co.* v. *Jewell*, 326 U. S. 242).

The three patents involved in this case likewise illustrate the fact that a patentee should be held to the right of exclusion given by patent law and should not be deemed to be empowered to fix the price of an article embodying a patented invention. The commercial structure involved here consists of a dropout fuse cutout having a double hinge at the bottom (the Lemmon patent) under the control of a meltable fuse link (the Schultz patent) and housed in a wet process porcelain box (the Kyle patent). None of the three patents gives to the inventor the right to manufacture, use or sell this commercial structure, yet each patent gives to the inventor the right to exclude others from manufacture, use and sale of this commercial structure. If each of these three patents had been owned separately, fixing the price of the structure would involve either three patent owners separately exercising price control over it or price fixing through agreement among the patent owners, which price fixing this Court has held to be not within the patentee's privilege (*infra*, pp. 77–82).

If the *General Electric* case means that a patent upon only a part of a complete article empowers the patentee to fix the price of the article, then the opportunities for price fixing are virtually limitless and the monopoly of the patent is extended far beyond its grant. But if the power to fix price given recognition in that case

is confined to products which are completely covered by the patent, the situation assumed to exist in the *General Electric* case, then it is doubtful whether the doctrine of the case can have more than a very narrow and limited application in the present advanced stage of industrial and technological development. We submit that, aside from the lack of foundation for the doctrine under accepted legal principle, a doctrine which, although having almost no room for legitimate application, furnishes a convenient facade for illegal price fixing, should now be disavowed by this Court.

II. THE UNCERTAINTY IN THE LAW ENGENDERED BY THE DOCTRINE OF THE GENERAL ELECTRIC CASE IS AN ADDITIONAL REASON FOR DISAVOWING IT

There are a host of difficult and unsettled questions as to the scope and application of the *General Electric* holding. For one thing, there is uncertainty as to the nature of the patent which, under that decision, justifies price fixing. There is apparent conflict between different circuit courts of appeals on the question whether the owner of a process patent may fix the price on unpatented articles produced by means of such patent.[a] *Mercoid Corp.* v. *Mid-Continent Investment Co., supra,* would seem to establish that the

[a] Compare *American Equipment Co.* v. *Tuthill Bldg. Material Co.*, 69 F. 2d 406 (C. C. A. 7) with *Straight Side Basket Corp.* v. *Webster Basket Co.*, 82 F. 2d 245, 246 (C. C. A. 2).

owner of a combination patent is not empowered to fix the price of an article which is an essential element in the patented combination. Nevertheless, if the proper test is what is normally and reasonably adapted to secure pecuniary reward for the patentees monopoly, it is difficult to differentiate in this respect between a product patent on the one hand and a process or a combination patent on the other hand.

Another unsettled question is the extent to which the patent must dominate the price-fixed article in order that the patentee remain within his monopoly. The *General Electric* case was decided upon the basis that the patents in question completely controlled the manufacture, use and sale of the price-fixed article (*supra*, p. 48). Whether this decision applies to patents not shown to be of this character is raised in the appeal to this Court in the *Gypsum* case.[46]

Other equally serious questions arise or may arise under the *General Electric* case. Does the decision sanction price fixing pursuant to a pooling of patents by two or more patent holders?[47] Does it sanction price-fixing licenses which are the product of agreement or understanding on the part of the potential licensees to act in concert in

[46] See Jurisdictional Statement filed in *United States* v. *United States Gypsum Co.*, No. 711, this Term.

[47] See *Standard Oil Co.* v. *United States*, 283 U. S. 163, 169, 170, 172; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 459.

taking licenses, or licenses which are the product of preliminary agreement among the potential licensees as to the terms upon which licenses will be accepted? To what extent does the decision sanction the imposition of marketing restrictions upon licensees, for example, by requiring sales only to consumers, by prescribing those solely eligible to distribute the product, or by specifying the advertising media or the credit policies which the licensee may employ?[a]

For an interesting discussion of the unsettled limits of the price control which is or may be permissible under the *General Electric* case, see Steffen, *Invalid Patents and Price Control*, 56 Yale Law Journal 1, 2–6.

Even if this Court, in the course of a series of appeals to it, ultimately determines the foregoing questions, there will almost certainly remain serious doubt and uncertainty as to the application of these decisions to the varying facts of other cases.

Finally, the limitation of the antitrust laws upon the patentee's power to fix prices would cause wide areas of uncertainty. The extent to which licensees participate in the drafting of the licenses or cooperate with each other, the number of industries which participate in the price-fixing plan, the degree of competition which remains, the man-

[a] The *General Electric* case holds (at pp. 489, 490) that the patentee is permitted to limit not only the licensee's price but also his "method of sale."

ner and circumstances of the execution of the license agreements, all these are variable factors of limitless range. To them should be added the possibilities of subterfuge or well-concealed collusive action by competitors in fixing prices ostensibly on the basis of a patent.[49] As a practical matter, to assure realization of the dominant public interest in unrestricted competition, it cannot be safely determined that price-fixing under patents is justified under any circumstances.

II

SUSTAINING THE LEGALITY OF APPELLEES' PRICE-FIXING COMBINATION WOULD BE AN EXPANSION OF THE DOCTRINE OF UNITED STATES *v.* GENERAL ELECTRIC CO., 272 U. S. 476, IN CONFLICT WITH PRINCIPLES REPEATEDLY APPROVED AND APPLIED BY THIS COURT

A. APPELLEES' PRICE-FIXING COMBINATION WAS THE PRODUCT OF JOINT, RECIPROCAL, AND CONCERTED ACTION AMONG THE PROSPECTIVE LICENSEES, PROMPTED AND PARTICIPATED IN BY THE PATENTEES, AND SUCH A COMBINATION IS NOT WITHIN THE MONOPOLY RIGHTS OF PATENTEES, AS THOSE RIGHTS HAVE BEEN CONSTRUED BY THIS COURT IN THE GENERAL ELECTRIC CASE AND IN OTHER CASES

In the *General Electric* case the license to Westinghouse was the only one made by the patentee with price-fixing provisions.[50] The precise hold-

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[49] See *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20; *Hartford Empire Co.* v. *United States*, 323 U. S. 386.

[50] Thirteen other companies held licenses to manufacture and sell under General Electric's tungsten lamp patents, but none of these licenses contained any provisions as to the prices, terms or conditions of sale of the lamps made under

ing of the case was that a patentee may protect the price at which he sells the patented article from the competition of lower prices of a licensee, and may secure this protection by inserting in a patent license the condition that the licensee shall not sell the patented product at a lesser price than that of the patentee. It is also doubtless implicit in this holding that a patentee may, without overstepping his monopoly, negotiate with an individual prospective licensee as to the terms, including those providing for fixing prices, to be included in their proposed license agreement.

The price-fixing combination of the present appellees, however, goes far beyond the limited right thus given recognition. Receipt of the offer of Southern to grant licenses under the Line and Southern patents, an offer addressed jointly to the major members of the industry, initiated a

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the licenses (Record, *General Electric* case, 91–92). The licenses did limit the number of lamps which the licensees might sell (*ibid.*).

Likewise, in *Bement* v. *National Harrow Co.*, 186 U. S. 70, only a single license was before this Court and it considered (see pp. 94–95) only the question of eliminating price competition between the patentee and a single licensee. Actually, the National Harrow plan involved a series of interrelated price-fixing agreements between National Harrow and a number of licensees and when the full scope of the price-fixing scheme was brought before the courts, they uniformly held it to be illegal. *National Harrow Co.* v. *Hench*, 76 Fed. 667 (C. C. E. D. Pa.), affirmed, 83 Fed. 36 (C. C. A. 3); *National Harrow Co.* v. *Hench*, 84 Fed. 226 (C. C. N. D. N. Y.); *National Harrow Co.* v. *Quick*, 67 Fed. 130 (C. C. D. Ind.); *Strait* v. *National Harrow Co.*, 18 N. Y. Supp. 224.

series of conferences among them. At these conferences, and through numerous and long-continued oral and written communications, there was a complete interchange of views, plans and purposes, eventuating in the formulation of the terms upon which license agreements would be generally acceptable to all members of the group (*supra*, pp. 12–20). The decisions reached jointly by the prospective licensees, and accepted by the patentees, brought about substantial changes in the license agreements proffered by the patentees,—for example, that Line rather than Southern should fix the prices of the licensees (*supra*, p. 21) and that price fixing under cutout patents should be under two patents rather than under a much larger group of patents.[a]

This group action in the formulation of mutually acceptable license provisions also provided the condition for, and was directed to the end of, bringing all major members of the industry under the same license provisions, the core of which was what was variously referred to as

[a] Compare the price-fixing provisions of the Kearney license agreement of October 1938 with those of the Kearney license agreement of June 1940 (Ex. 16, pars. 3, 6–8, 13, R. 643–645, 647; Ex. 142, par. 9, R. 949, 953). The former agreement was that which the patentees sent at that time to the other major cutout manufacturers with the statement that it was the "standard" being offered to all (*supra*, p. 11). The latter was the agreement made with Kearney embodying the license provisions which the prospective licensees had jointly agreed upon (*supra*, p. 23).

"price fixing," "price control," "price regulation." We submit that the evidence requires the conclusion that it was at least the tacit understanding of the parties that, after there had been a meeting of minds on license terms, all or substantially all of the major cutout manufacturers would take licenses upon these terms. For present purposes we assume, as the court below appears to have concluded, that there was no agreement, in the sense of a binding commitment, that any company would take a license or that it would do so if others did.[52] But the evidence indisputably establishes that the joint action of the parties paved the way for, and was in anticipation of, industry-wide acceptances of licenses. It is likewise undisputed that, in fact, this is what occurred.

After General Electric, who acted as leader of the prospective licensees, and Line, who represented the patentees, had translated into specific license agreements the decisions reached through group action, and after General Electric had then signed license agreements in April 1940, the stage

[52] The court below found that each license agreement was "entered into as a result of arm's length negotiation" (R. 509). In the light of the evidence, this finding (which the Government has assigned as error, R. 540) can be supported only if it means that, within the framework set by joint determination of the major license provisions (including those for price fixing), individual licensees were free to, and did, bargain and haggle with the patentees respecting minor changes in the license provisions. See *supra*, pp. 21–25.

was set for the others to do likewise (*supra*, pp. 20–21),[53] Matthews was the first to act, but even then it was unwilling to become bound unless two other companies, in addition to the three which had already accepted price control,[54] should sign licenses containing identical price-fixing provisions (*supra*, pp. 22–23). Two other substantial producers, informed of this action and of the terms of the escrow deposit promptly signed identical license agreements and deposited them in escrow on the same condition (*supra*, p. 23). Thus the agreement made by each of these three companies was expressly contingent upon like agreement by others. The only two remaining substantial producers negotiated certain minor changes (not involving the price-fixing provisions) in the license terms and signed agreements in January 1941

[53] Even as to General Electric, there is evidence of its reluctance to be bound unless the other companies should also be bound. An official of the company, making a report to another official concerning the third meeting of the cutout manufacturers, stated that Line was "very anxious to get our signatures as an inducement to get others to sign" and added: "I assume that some arrangement can be made by which our signature on the separate wet process [Kyle] patent agreement will not be valid unless all of the others sign an agreement providing for license under the wet process patent" (Ex. 71, R. 744, 745).

[54] The cross-license agreement of Line and Southern required observance of Line's prices, and General Electric's agreement required observance of Line's prices on products made under the Line-Southern cutout patents. These three companies together did about 62% of the total business in dropout fuse cutouts (*supra*, p. 6).

(*supra*, p. 25).[58] It is likewise significant that it was in January 1941 that Line first put into effect a comprehensive price schedule, prepared in cooperation with its licensees, and began enforcement of the price-fixing provisions of the license agreements (*supra*, p. 30).

Of course, group or collective action is not illegal as such, but when it is the medium for price fixing it falls directly under the condemnation of the Sherman Act and sanction therefor, if any there be, must be found in the patent law. The question is therefore raised whether any sanction given by that law which was given recognition in the *General Electric* case extends to a situation where, as in the instant case, group action plays a decisive role in the formation of the price-fixing combination.

The holding in the *General Electric* case that the patentee is within his monopoly when he conditions his grant of a license on the licensee's observance of the patentee's prices does not mean, we submit, that there is any exercise of the patentee's monopoly rights when prospective licensees, who can assert no right derived from patent law, agree upon the terms upon which patent licenses providing for price fixing will be acceptable to them, or when they, in effect, mutually subscribe

[58] Each of the four other appellee licensees is a very small producer and each signed a license agreement promptly after it had been given the names of the companies which had already signed and had been furnished with copies of the license agreements so signed (*supra*, pp. 24–26).

to and join in the price-fixing scheme embodied in the license agreements which they have jointly formulated. Just as the "lawful individual monopolies granted by the patent statutes cannot be unitedly exercised to restrain competition",[35] and as the "patent monopoly of one invention" may not be "enlarged for the exploitation of a monopoly of another",[36] so the monopoly rights of the patentee do not extend to price fixing pursuant to license agreements which are the product of combination or agreement among non-patentees looking toward, contemplating and bringing about identical price-fixing license agreements, made in each case with full knowledge of the like agreements made by others. It is therefore clear that the distinction here urged between, on the one hand, a single license with price-fixing provisions (the *General Electric* situation) and (possibly) licenses with such provisions negotiated and entered into wholly independently of one another and, on the other hand, licenses with such provisions formulated and entered into pursuant to agreement among the prospective licensees accords with and has the support of this Court's interpretation of the limits of the patent monopoly."

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[35] *Standard Oil Co.* v. *United States*, 283 U. S. 163, 174.

[36] *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 459.

[37] We later point out (*infra*, pp. 77–81) that *United States* v. *Masonite Corp.*, *supra*, not only supports, but requires, this conclusion.

In *United States* v. *Paramount Pictures, Inc.*, 66 F. Supp. 323 (S. D. N. Y.), a three-judge district court held that when

The distinction which we urge also has sound support in reason and policy. In the former situation the patentee obtains price protection solely by virtue of the force of his patent, or at least the Court in the *General Electric* case, as we read the decision, assumed this to be so. If the patentee deals wholly independently with each prospective licensee, any uniform action by them in the making of price-fixing licenses would be a bowing to terms inflexibly demanded by one whose patent position permitted him to dictate terms. This, however, would rarely be the case. One prospective licensee may believe the patent invalid, another that he can invent around the patent, a third may have a competing patent approaching final development, a fourth may manufacture a satisfactory competitive substitute, etc. In these varying situations, the patentee must bar-

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distributors of copyrighted motion picture films grant licenses for exhibition of the films which require maintenance of a specified minimum admission price during exhibition of the film, and when there is substantial uniformity in the minimum admission prices required by the different distributors, and when each is aware that the others are licensing films with price restrictions, the distributors are parties to a general scheme to control prices violative of the Sherman Act. The court, in holding that *United States* v. *General Electric Co.*, 272 U. S. 476, did not apply to these facts, said (p. 340) "for there a license to only a single licensee—the Westinghouse Company—was involved, and, therefore, no conspiracy which sought to amplify the rights of the licensor under the Patent Act."

gain with the individual prospective licensees to secure the price protection which the patentee desires. But if the potential licensees first come to a common agreement upon acceptable license provisions, industry-wide application of price fixing—a feature converting price fixing from a probable competitive handicap into an instrument for increased profit—is at the very least facilitated and is, in all probability, a direct objective of the prospective licenses. Price fixing rather than patent protection may then well be the real inducement to acceptance of license agreements.

Moreover, unless the doctrine of the *General Electric* case is confined to price fixing where there was individual consideration of and action upon the proffered license, the line between permissible and prohibited group action will be extremely difficult to draw. In what circumstances is the common acceptance of price-fixing licenses a yielding to the force and strength of the patentee's patent and his insistence upon price protection and in what circumstances is there a price-fixing scheme utilizing patent license agreements for its effectuation? To extend the *General Electric* doctrine to a situation like that here presented would mean the virtual elimination of the rule of *Standard Sanitary Mfg. Co.* v. *United States*, *supra*. A patent would then become a ready instrument for price-fixing combinations.

B. UNDER THE PRINCIPLES APPLIED BY THIS COURT IN UNITED STATES V. MASONITE CORP., 316 U. S. 265, APPELLEES' PRICE-FIXING COMBINATION IS NOT GOVERNED BY THE GENERAL ELECTRIC CASE AND IS ILLEGAL

The *Masonite* case involved the legality under the Sherman Act of a series of identical agency agreements between Masonite and other companies by which the "agent" was appointed a *del credere* agent of Masonite and was authorized to sell hardboard manufactured by Masonite at prices not less than those fixed by Masonite and used in its own sales. These agents were all companies engaged in selling, or in manufacturing and selling, building materials and the agreements applied to hardwood products covered by certain patents on hardboard owned by Masonite. The district court, having determined that the agreements were true agency agreements, held that the case was controlled by *United States v. General Electric Co.*, 272 U. S. 476, which had sustained the legality of General Electric's system of marketing lamps through concerns whom it had appointed as *del credere* agents under contracts authorizing the agent to sell incandescent lamps made by General Electric and covered by its patents at the prices fixed by General Electric.

This Court held that the *General Electric* case was not controlling and reversed the district court's decision. This Court held (p. 274) that, aside from such effect as Masonite's patents and

the agency appointments might have, it was clear that the defendants were parties to "a price-fixing combination which is illegal *per se* under the Sherman Act." The Court further held that neither the agency appointments nor any rights conferred upon Masonite as owner of patents on hardboard removed this combination from the prohibitions of the Sherman Act. The grounds for this conclusion were:

The application of the Sherman Act, with reference to privileges asserted under patent law, is to be determined by substance, not by "the form into which the parties chose to cast the transaction" (p. 278). When, as in the case before the Court, the parties have established a system for marketing a patented product which utilizes the sales organization of competitors of the patentee, and with the purpose of fixing the prices at which the competitors may market the product, this constitutes "an enlargement of the limited patent privilege" (p. 279). The patentee "then has, so far as the Sherman Act is concerned, no greater rights to price maintenance than the owner of an unpatented commodity would have" (*ibid.*). Concerning this "enlargement of the limited patent privilege," the Court pointed out that when *del credere* agency agreements are used to knit together a whole industry so as to regulate prices and suppress competition, the effect is to "allow the patent owner, under the

guise of his patent monopoly, *not merely to secure a reward for his invention but to secure protection from competition which the patent law, unaided by restrictive agreements, does not afford*" (pp. 278–279). [Italics supplied.]

We submit that these considerations are equally applicable when, as in the instant case, all members of an industry, each with knowledge of the action of the others, enter into license agreements providing for observance of the prices fixed by the patentee. The freedom from price competition which the patentee purports to confer upon his licensees constitutes an inducement to the acceptance of licenses which, but for such inducement, might never be taken. To the extent that this is the case, the domain of the patent, and the consequent royalties received by the patentee, are enlarged and the patentee secures a reward for his invention "which the patent law, unaided by restrictive agreements, does not afford."

Whether the patented product is made solely by the patentee, as in the *Masonite* case, or by both the patentee and his licensees, as in the present case, the power to fix the price of the product is, as this Court noted in the *Masonite case* (p. 281), "a powerful inducement to abandon competition." The Court said further (*ibid.*):

> The forces which that influence puts to work are subtle and incalculable. Active and vigorous competition then tends to be

> impaired, not from any preference of the public for the patented product, but from the preference of the competitors for a mutual arrangement for price fixing which promises more profit if the parties abandon rather than maintain competition. The presence of competing patents serves merely to accentuate that tendency and to underline the potency of the forces at work.

We submit that in the instant case the controlling facts paralleled those of the *Masonite* case, not those of the *General Electric* case. Under the license agreements made by the appellees, Line fixed the prices of all licenses (except for the license to General Electric under the Kyle patent), thereby eliminating price competition on dropout fuse cutouts throughout the entire industry. This regime of non-competitive prices was, moreover, as beneficial to the licensees as to the patentees. In contrast, the *General Electric* case, insofar as the issues before the Court were concerned, involved fixing the prices of only a single licensee and there was no curb upon price competition among other licensees, or between them and the patentee (*supra*, p. 68).

Finally it is clear that, apart from any rights conferred by patent law, the present appellees are parties to a price-fixing combination prohibited by the Sherman Act. On this question the *Masonite* case is controlling. In that case, as in the present case, price-fixing agreements with the

patentee were entered into *seriatim*." Moreover, the findings of the district court in the *Masonite* case as to independent action in the making of agency agreements[8] go beyond the like findings in the instant case respecting the license agreements.[9] But these findings were held not to negative the formation of a price-fixing combination. This Court said (p. 275) that while it was not clear at what precise point of time each appellee became aware of the fact that its contract was not an isolated transaction but part of a larger arrangement, all ultimately became aware of the general scope and purpose of the undertaking. The Court therefore held the rule as stated in *Interstate Circuit, Inc.* v. *United States*, 306 U. S. 208, to be controlling:

> Acceptance by competitors, without previous agreement, of an invitation to partici-

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[8] Masonite's first agency agreement was made in October 1933; agreements with five other companies were made at various dates between October 31, 1933, and June 25, 1934; in 1936 the agents accepted a revised agreement after each agent had conditioned his acceptance upon acceptance by all the other agents; and in 1937 "substantially similar" agreements were made with two other companies (316 U. S. 265, 269-270).

[9] The findings, as stated by this Court (p. 275) were that "each appellee, other than Masonite, acted independently of the others, negotiated only with Masonite, desired the agreement regardless of the action that might be taken by any of the others, did not require as a condition of its acceptance that Masonite make such an agreement with any of the others, and had no discussions with any of the others."

pate in a plan, the necessary consequence of which, if carried out, is restraint of interstate commerce, is sufficient to establish an unlawful conspiracy under the Sherman Act.

In this case there is not merely a series of identical agreements from which an inference of joint action might be drawn, as in *Masonite* and *Interstate Circuit*, but a well-documented scheme of cooperative action mutually arrived at by the parties acting in concert.

C. THE PRICE-FIXING LICENSES TO WHICH THE APPELLEES ARE PARTIES, ENTERED INTO ON THE BASIS OF COMBINING SOUTHERN'S LEMMON PATENT WITH LINE'S KYLE PATENT, ARE NOT GIVEN SANCTION BY THE GENERAL ELECTRIC CASE AND ARE ILLEGAL.

The Lemmon and Schultz patents, respectively owned by Southern and Line, relate to manufacture of a double-hinged dropout fuse cutout whether the cutout be open or housed. The Kyle patent relates to the use of a wet process porcelain box for housing a cutout, whether it be a dropout or any other kind. There is no necessary relationship between the two although, of course, a dropout fuse cutout may be housed in a wet process porcelain box, in which event the inventions of all three patents may be utilized in the production of a single cutout. (*Supra*, pp. 7–8).

The Kyle patent originally issued in 1930 but, although Line had made intensive efforts to secure licenses under the patent and although manufacturers made wide use of the device disclosed, it

met no success for more than nine years (R. 303). General Electric thought the patent of very doubtful validity and that its reissue did not improve it (R. 318–319), and outside patent counsel, whose views on questions relating to the proposed license agreements with Line were requested, were of the same opinion (Ex. GE–33, R. 1963, 1965). In a suit by Line charging General Electric with infringing the patent, its invalidity was strongly relied upon as a defense (Ex. W–13, R. 2302, 2304).

Line was successful in negotiating licenses under the Kyle patent only after it was combined with the Lemmon and Schultz patents. Combining the Kyle with the two latter patents was first broached by Line when it met with General Electric, which the cutout manufacturers attending the meeting of June 1, 1939, had designated as their representative in negotiating changes in the proposed license agreement (*supra*, p. 13). At a second meeting of the prospective licensees Line convinced the group of the desirability of including the Kyle patent in order to make price control of dropout fuse cutouts effective (*supra*, p. 15). The basis for licensing upon which Line and the other major cutout manufacturers ultimately agreed was that licenses to manufacture enclosed cutouts would be granted under the Lemmon and Schultz cutout patents only if the licensee also took a license under the Kyle patent (*supra*, p. 19).

Standard Oil Co. v. *United States*, 283 U. S. 163, involved an agreement among the owners of competing process patents to pool their patents for the purpose of granting licenses thereunder. This Court held that the facts there presented did not establish a violation of the Sherman Act,[a] but it unequivocally stated that an agreement for cross-licensing such patents when used to fix prices violates the Sherman Act. The Court said (pp. 174–175):

> Where domination [of an industry] exists, a pooling of competing process patents, or an exchange of licenses for the purpose of curtailing the manufacture and supply of an unpatented product, is beyond the privileges conferred by the patents and constitutes a violation of the Sherman Act. The lawful individual monopolies granted by the patent statutes cannot be unitedly exer-

[a] The following summary of the facts, shows how widely they vary from those of the instant case. Certain owners of patents covering different processes for cracking gasoline entered into cross-license agreements which permitted each patent owner to license the use of his process under the combined patents of the cross-licensees. The agreements fixed the royalties to be paid by licensees and they fixed the division of these royalties among the patent owners. No limitations were placed upon licensees as to the quantity of gasoline which might be produced under the licenses or as to the prices at which such gasoline might be sold. Since the gasoline made by cracking was only about 26% of the total production of gasoline and was indistinguishable from gasoline otherwise manufactured, the Court concluded that the licensees' royalty payments did not fix or appreciably affect the market price of gasoline.

> cised to restain competition. [Citing cases.] But an agreement for cross-licensing and division of royalties violates the Act only when used to effect a monopoly, or to fix prices, or to impose otherwise an unreasonable restraint upon interstate commerce. Compare *Bement* v. *National Harrow Co.*, 186 U. S. 70; *Cement Manufacturers Protective Assn.* v. *United States*, 268 U. S. 588, 604; *United States* v. *General Electric Co.*, 272 U. S. 476, 490; *United States* v. *Trenton Potteries Co.*, 273 U. S. 392, 397.

We submit that there clearly is no difference in principle between price fixing effected by combining patents on different processes, the situation in the *Standard Oil* case, and price fixing effected by combining patents on different products, the situation now before the Court. In either situation patents with different spheres of monopoly are combined with the purpose and effect of restraining trade, and it is settled that combining the monopoly of one patent with the different monopoly of another is not within any privilege given by patent law. *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436.

In the *Ethyl* case the owner of a patent on a fuel and of a patent on the use of that fuel in combustion motors granted licenses for use of the latter invention upon conditions which, but for any patent privilege, illegally restrained interstate commerce. This Court held that while such conditions might enhance the reward obtained by

the patentee from exploitation of his patented fuel, they were not designed to secure to him a reward for his other patent, the one licensed upon conditions which were in restraint of trade, and these restraints were therefore not within any sanction given by patent law. The Court said (p. 459):

> The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another, see *Standard Sanitary Mfg. Co.* v. *United States, supra,* than for the exploitation of an unpatented article [citing cases], or for the exploitation or promotion of a business not embraced within the patent.

See also *Mercoid Corp.* v. *Mid-Continent Investment Co., supra,* at pp. 665–666; *Morton Salt Co.* v. *Suppiger Co., supra,* at p. 493.

In the present case the appellees entered into a price-fixing combination which was effectuated by combining the cutout patents owned by Line and Southern with the patent on an enclosure for cutouts owned by Line. Under the decisions of this Court, combining the monopolies of these respective patents is not within any privilege conferred by patent law and the price-fixing combination is subject to the prohibitions of the Sherman Act. This conclusion, furthermore, does not in any respect conflict with the rule of the *General Electric* case, where there was no combination of the

patents of different owners and no combination of patents on different products. Whether there would be any room for the application of the *General Electric* case if there had been price fixing pursuant to a combination of only the two cutout patents, one of which was subservient to the other, need not be passed upon.

The Government also submits that the license agreements would be illegal if only the cutout patents had been combined for the purpose of fixing the prices of licensees. The prices of these licensees were fixed by Line. If appellees' agreements were to be held valid, then price-fixing authorization under patent law must spring from (1) Line's own patent, a holding which would mean that ownership of a subservient patent confers power to fix prices without reference to the patent which dominates it; or (2) from Southern's patent, a holding which would mean that a patentee may delegate his price-fixing power to another; or (3) from the cutout patents of both Line and Southern, as provided in their cross-licensing agreement, a holding which would mean that prices may be fixed by virtue of agreement rather than by virtue of patent ownership.

CONCLUSION

For the reasons stated, it is respectfully submitted that the judgment of the district court should be reversed, with directions to enter a judgment granting appropriate relief to the United States.

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